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Mr. Rodney E. Slater
Secretary of Transportation
400 Seventh Ave. SW
Washington, DC 20590

Ref: United and Delta Airlines recently imposed Commission Caps on U.S. Agencies

Dear Mr. Slater:

First let me say that I am in favor of a 'free market economy' and of there being 'open skies' between and within countries. I also believe that an airline has the right to individuallv determine what their commission structures and other cost should be. If these conditions are met, then I know competition will drive airfares lower, just as competition has affected other industries. The evidence shows that none of the conditions stated above are being met.

As background information consider the following:

1. In February 1995, domestic flagged carriers lead by Delta Airlines announced that they would cap tickets issued in the U.S. and Canada for travel within the U.S., Canada, and U.S. territories at $50 round-trip and $25 one way up to a maximum of 10%. Before this time, all carriers were paying a minimum of 1 0%, no caps. Several organizations, including ARTA (American Association of Retail Travel Agencies) and ASTA (American Association of Travel Agents) filed suit in U.S. District Court, Minneapolis, MN to block the cut alleging collusion among the top five U.S. flagged carriers, United, Delta, American, Continental, and Northwest. This suit was settled in early 1997 for the paltry sum of $380,000,000 because the attorneys said that the case would be too hard to prove.
2. In early October, 1997, the U.S. flagged carriers led this time by United Airlines, cut the commission percent to eight with the same dollar caps. This was quickly followed by all the other major carriers with the exceptions of Southwest (they still pay 10%, no caps) and Trans World Airlines (TWA has since lowered their commission to 8%). Since the major carriers made the commission caps stick, most smaller regional carriers have also cut their commissions claiming that they were at a competitive disadvantage to keep paying higher commissions.

3. On Thursday, November 12, 1998 we received a fax from United Airlines that they were restructuring International commissions for U.S. and Canadian agencies. They would still pay an 8% commission but they would cap it at $100 round-trip and $50 one way. As of this writing, Delta has followed United and I'm sure that the others will as is their practice.

My concerns are three fold. First, this will undisputably raise fares for business and leisure travelers alike, even though Mr. Greenwald at United said that this would not have a direct effect on increasing ticket prices. There is plenty of evidence to support that ticket prices will increase. First, agencies will have to increase service fees to help reduce the lost revenue. Mr. Greenwald must not consider that a cost to the consumer. Secondly, because more agencies will go out of business due to these caps, more consumers will go directly to the airlines. They will invariably be quoted a higher price than an agency would could find them. Go back and look at the stories done on ABC's 20/20 and on NBC's Prime Time regarding ticket prices paid by air travelers. These shows put the spotlight on the cost of tickets and how much prices vary from person to person on the same flight. They also showed, as other polls and surveys have, that a travel agent was the best source of finding the lower fares. **Why are there seven U.S. flagged carriers flying from Norfolk to Los Angeles and over 124 different fares?** American Express, the largest gatherer of information in the travel industry, runs reports every quarter on the cost of travel. Air travel expenses for the business traveler have increased over 20% in the last year alone. This increase comes at a time when jet fuel cost have markedly decreased, load factors are up, and inflation is very low. The cost for the leisure traveler is up by over 12%. These fare increases are directly related to a decrease in competition! The strategy being employed by United, Delta, and American (the three largest U.S. flagged carriers) is to slowly change the distribution system of airline tickets so that passengers must buy directly from the carrier. Why slowly? Because if they withdraw commissions all together right now, their reservation systems would not be able to handle the traffic. They must incrementally decrease the public's dependency and their dependency on the travel agent community or risk the negative impact on their company reputations. Once they have the agents out of the picture, there will not be an <u>independent advocate for the traveler</u>. The traveler will have to find their own ways through the maze of fares from Norfolk to Los Angeles OR rely on the 'friendly folks' at United, Delta, or American to get them the best fare. As many comparisons have shown, agents can get you a better fare 98% of the time.

My second concern is that of my agency and the people who work with us. My wife and I employ seven wonderful, dedicated people. The first two cuts these airlines made at our company's income cost us over $70,000 per year. This new one, if the other carriers follow United's lead, will cost us $48,000 per year! That translates directly into jobs. We would have three more staff members IF it wasn't for these cuts. The profit my wife and I took out of the agency amounted to 1.25% of gross sales prior to this latest cut. If all carriers follow United, the 1.25% will be eliminated. We may have to cut staff and therefore, unemployment payments will increase. You'll see this happen nationwide with over 25,000 agents out of jobs and many agencies closing their doors. It might be less outrageous IF carriers were lowering the cost of travel and improving their services. But this is simply not the case! Ask any road warrior about air travel today on a U.S. flagged carrier. They will tell you service 'ain't what it used to be.' For International travel, many choose foreign flagged carriers because the service is better. Many would take a foreign flagged carrier from point to point in the U.S, if the DOT permitted it. We have federal government contractors that we could send over to the Pacific at a lower cost on foreign flagged carriers **BUT** they can't use them because the contracts with the federal government instruct them to take a U.S. flagged carrier as far as possible. As a taxpayer, I am appalled by this when I know taxpayers can save over $500 per ticket if they could fly on a foreign flagged carrier. Does this concern you as much as it does me?

My third concern is that the increasing lack of competition will have a negative impact on American Businesses. Is there a decreasing level of competition among U.S. and foreign flagged carriers? The answer is an unequivocal YES! Any travel agent can show you carrier rules and fare screens which are **exactly** alike in their content. These carriers say they are only 'meeting the competition'. But the evidence shows that's simply not the case. On top of what I believe is their obvious collusion in fixing prices, they have divided up service into cities like New York. They are decreasing competition into their hub airports and then dividing up the markets which fly into these hubs. From Norfolk, Continental flies into Newark, USAir into La Guardia, and TWA into John F. Kennedy. Several years ago we had a choice flying into Newark with direct flights on USAir and Continental. All of a sudden, USAir stopped direct service into Newark? I wonder why? Now they are forming 'code share' alliances, stopping just short of merging. They know the Justice Department would never allow a merger so, they are just creating a de facto one. Northwest and Continental, United and Delta, American and USAir. I think they are sharing more than Frequent Flyer programs. Airlines are also allowed to buy seats on their competitor's planes. The consumers really don't know which product they are buying in many cases. Carriers should be prohibited from buying seats on their presumably competing carriers!

Not only are they forming 'alliances' with US flagged carriers, they are forming International agreements which further decrease competition. They know that by forming these alliances, the foreign carriers will not have an incentive to try and get approval to fly point to point within the U.S. This erases another source of competition domestically, as well as helps decrease competition on international fares. Why shouldn't their foreign flagged 'partner' airlines have the same international fares, commissions, and rules as they have? **This isn't about to happen, this is already happening!**

These commission caps <u>ARE NOT</u> imposed on agencies outside of the U.S. and Canada. Why not? Why should foreign owned and operated travel agencies have an uncapped 9 and 10 percent commission level? How does this effect corporations who travel internationally? If U.S. and Canadian agencies must now impose fees on companies who travel internationally, won't these companies buy their tickets from a cheaper alternative outside the United States?

I am asking on behalf of all air travelers, travel agents, and concerned citizens of the United States that the Congress start hearings into re-regulating the nation's airlines. When deregulation was started during the Carter Administration, the hope was that unregulated competition would improve service and decrease cost. Neither goal has been attained because the deregulation was never fully implemented and the major carriers have bended the rules. Please help straighten this out!

Sincerely, ,

Chris Nicholas
President, Nicholas Travel Inc. d/b/a Travel Network